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BUSINESS MONTH

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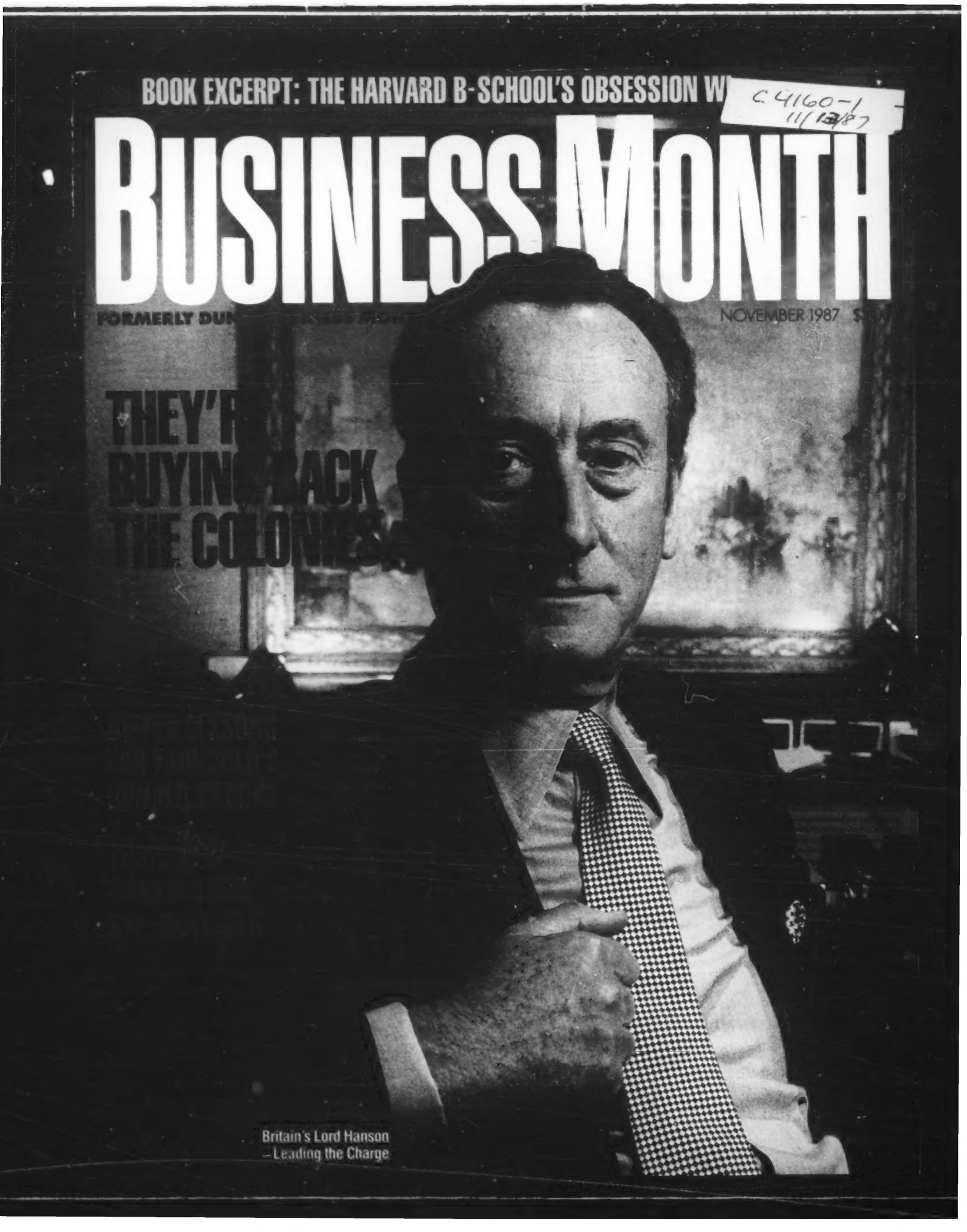

Britain's Lord Hanson
– Leading the Charge

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BRITAIN BUYS BACK THE COLONIES

By one estimate, 250 U.S. firms will be taken over this year alone at a cost of $30 billion. Cheeky.

BY FRANK GRAY

British business, the longtime weak sister of the industrial world, is kicking up its heels. Spurred by a growing economy, burgeoning profits and a strong pound, British firms will take over hundreds of U.S. companies this year. Says Andrew Sentance, an economist with the 3,000-member Confederation of British Industry: "British companies stand to gain all around by expanding their international base. America, the world's largest marketplace, is the logical place to do it."

It is generally agreed that the pro-business policies of Prime Minister Margaret Thatcher's Conservative government, first elected in 1979 and reelected resoundingly for the third time last June, have sparked the new drive for U.S. acquisitions. Although the Tories have tightened company tax breaks, they have progressively reduced the corporate tax rate to the current 35 percent from 50 percent in early 1984. Moreover, with inflation at a modest 4 percent and the economy growing at the same healthy rate, corporate profits will be up an impressive 15 percent this year, on top of a similar increase in 1986. So companies are awash in cash for acquisitions. "We expect 250 takeovers of U.S. firms this year with a value of more than $30 billion," says Philip Healey, Editor of *Acquisitions Monthly*, which monitors takeovers in the U.K.

LORD HANSON

HARD-NOSED YORKSHIREMAN

James Edward Hanson, 65, has long had a reputation as both a playboy and a ruthless manager adept at turning flagging companies into vibrant profit centers.

Engaged to actress Audrey Hepburn in 1954, the Yorkshireman's gossip-column image has receded with age and his 28-year marriage to American Geraldine Kaelin. But his reputation as a hard-nosed businessman is still very much with him.

Hanson inherited a family trucking business, which was nationalized by the Labour government in 1947 to the tune of £3 million. He used this stake to create Hanson Trust in 1950 and took the company public in 1964. Until the recent Kidde deal, his biggest move was the £2.6 billion ($4.2 billion) takeover of the huge Imperial tobacco group in 1986.

A staunch Conservative, Hanson nevertheless won a knighthood from a Labour government in 1976. He was made a lord by the Conservatives in 1983.

The Bank of England says it is not worried by the huge capital outflows, particularly since much of the additional capital needed to finance foreign ventures is raised abroad. A case in point: the $5 billion needed to finance British Petroleum Co. plc's mammoth $7.4 billion bid last March for the 45 percent it did not already own of Standard Oil Co., the biggest British acquisition ever done in the U.S. With Morgan Guaranty Trust Co. of New York taking the lead, 64 commercial banks rushed to provide the funds for the deal. In fact, the banks were so anxious for a piece of the action that they offered BP far in excess of what it needed, says Chairman Sir Peter Walters.

If the BP deal jolted normally phlegmatic City of London institutions, they have been left virtually breathless by the sheer volume, size and range of other deals put together this year *(table, page 26)*. Scarcely a major sector of the economy has been left untouched.

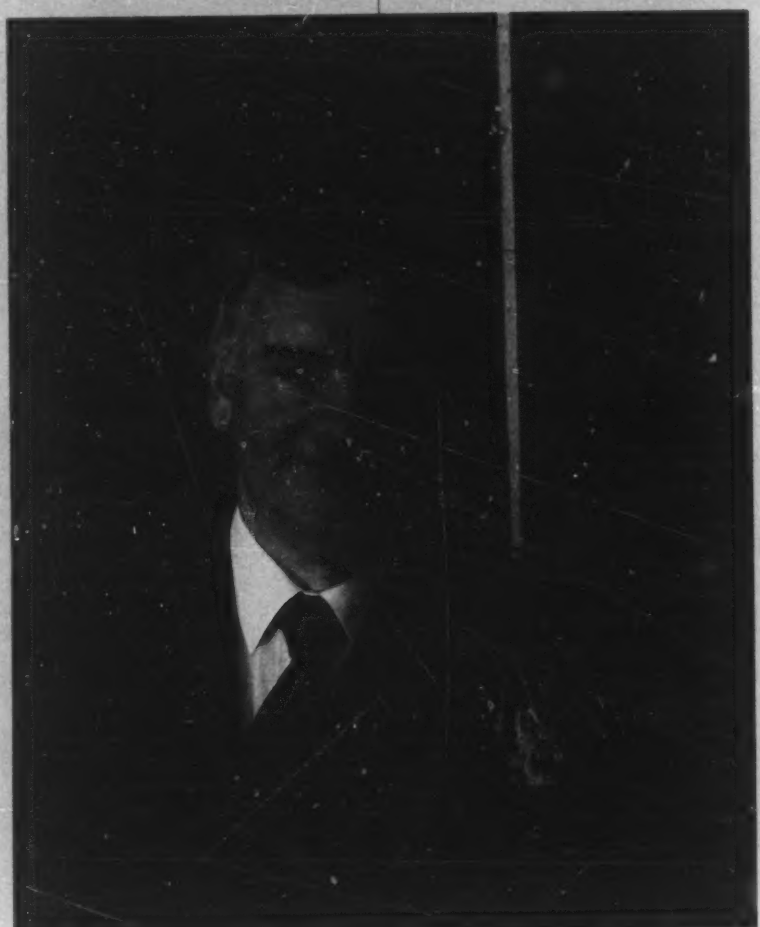
Lord James Hanson's giant Hanson Trust plc conglomerate, one of Britain's top ten companies with annual sales last year of £4.3 billion ($7 billion), gobbled up fellow conglomerate Kidde Inc. of New Jersey in a cleverly maneuvered $1.7 billion deal last summer. Imperial Chemical Industries, under Chairman Denys Henderson, paid the same for Stauffer Chemi-

ILLUSTRATION BY DAN KIRK

ALLEN SHEPPARD
UP FROM THE SLUMS

Brought up in London's East End slums, the son and brother of railway men, Allen Sheppard, 55, joined Ford Motor Co. after working his way through the London School of Economics. A man with no hobbies but work, he held a variety of sales jobs at Ford. He then joined the Roots car company and subsequently jumped to British Leyland Motor Corp. He enjoys his reputation as a tough manager and says he "prefers to rule with a light grip on the throat."

Sheppard's sales background caught the attention of the Grand Metropolitan Group; he was hired by its brewing division in 1975. In 1980 Sheppard took charge of all the company's beer, leisure and hotel interests and was named chairman this year. Once asked what company he would like to head, he replied, "British rail—it's a family concern."



cals. The latter was spun off by Michael Angus' Anglo-Dutch Unilever plc, which acquired it as part of its $3.1 billion ingestion-at-one-gulp of Chesebrough-Ponds at the beginning of the year.

Some other deals, as the British like to put it, have been downright cheeky because they involve companies that are American institutions.

In one, the F.H. Tompkins plc engineering group, led by Greg Hutchings, a former takeover specialist with Lord Hanson, snapped up Smith & Wesson of handgun fame from Lear Siegler Holdings for $112 million. Says Hutchings: "This is not to say that we are going into the Saturday-night special business, you know. These guns sell for $200-to-$300 apiece."

In another, Martin Sorrell took a cue from his former bosses at Saatchi & Saatchi Co. plc, where he was finance director, by snaring U.S. advertising giant J. Walter Thompson for his WPP Group Ltd., a fast-growing marketing services company once renowned for its shopping carts. The $566 million acquisition may prove a mixed blessing, since J. Walter Thompson lost its lucrative Burger King account just as the deal was being wrapped up in late September.

Perhaps the most colorful deals involve Britain's fast-expanding hotel and liquor industry. In the space of ten dramatic days in September, nearly $1.5 billion changed hands when the U.K. replaced the U.S. as the world's premier owner and operator of quality hotels.

The Ladbroke Group plc, known more for gambling, real estate and retailing than for hotels, swept down on Allegis Corp., owners of United Airlines, to swallow Hilton International after Allegis accepted its take-it-or-leave-it offer of $1.07 billion. Through his Manhattan-based London & Leeds Corp. and—with the help of a £254 million ($414 million) rights issue in London—Ladbroke Chairman Cyril Stein took the play away, or so he thought, from Bass plc, the brewing giant also interested in acquiring Hilton.

Within days of Stein's triumph, Bass Managing Director Ian Prosser staged a coup of his own: the $475 million acquisition of the international network of Holiday Inns from US Holiday Corp. Says Prosser: "Of course we wanted Hilton, but we feel we have a good deal with Holiday Inns, which enables us to expand our hotel business considerably."

"Expand considerably" is Britsh understatement. Bass takes over thirteen U.S. hotels and 135 foreign Holiday Inns, and it will develop another 25 jointly with the Holiday Corp. Ladbroke's move gives it 91 hotels worldwide with another sixteen under development to add to its own small stable of quality hotels in Britain. Says John Spicer, industry analyst for Kleinwort Grieveson Securities Ltd.: "Only time will tell if they are good deals. Foreign holdings are harder to control. In the case of Bass, it will likely be in the 1990s before we see any big boost in the company's profits."

These deals come on top of the 100 InterContinental Hotels taken over by Grand Metropolitan plc from Pan American World Airways for $500 million in 1981 and the 786 hotels—including the

THE BOOM IN BRITISH BUYOUTS

YEAR	NUMBER	VALUE (in billions)
1984	142	$ 3.9
1985	160	5.2
1986	229	13.9
1987	250*	30.0

Source: J.P. Mervis & Co. *Projected

PHOTOGRAPH BY RIC GEMMEL

US TraveLodge chain—owned worldwide by the unassailed U.K. leader, Trusthouse Forte plc, still run by Lord Charles Forte, the 79-year-old Italian immigrant who was once an ice cream vendor in Piccadilly Circus.

Virtually all the bidders agree that the renewed strength of the pound against the dollar has spurred their acquisition fever. Sterling has been reasonably stable at around $1.60-to-$1.65 in relation to the dollar for six months, a far cry from its all-time low of $1.05 in late 1984.

The firm pound helped persuade Grand Met to buy Heublein, the liquor unit of RJR/Nabisco, for $1.2 billion in cash earlier this year. Referring to the sterling-dollar relationship, Group Chief Executive Allen Sheppard says the takeover bid "would have been a different proposition several years ago."

However, it will take quite a few years before a discernible return is derived from Heublein, which was bought for top dollar. Says Sheppard, who now has control of Smirnoff vodka, which, after Bacardi rum, is the world's most popular alcoholic drink: "Of course we paid a top price, but it is a top-quality product. We wanted it and were prepared to pay for it. It fits our company profile better than Nabisco's."

By the same token, Anthony Tennant, new chief executive of the giant Guinness plc brewing and distilling group, paid $480 million in September to acquire Schenley Industries. It is a deal that probably would have been structured differently had not his predecessor, Ernest Saunders, sold the U.S. distribution of top-selling Dewar's White Label whisky to Schenley proprietor Meshulam Riklis as part of his controversial and successful bid to take over the Distillers Co. plc last year. Saunders was dismissed from Guinness earlier this year because of the insider trading and share manipulation in the deal, which involved disgraced arbitrageur Ivan Boesky.

Tennant admits he was fulfilling a pact with the company's shareholders to erase the Saunders mess and avoid lengthy litigation required in reclaiming Dewar's. "The move puts the stamp of authority on Tennant's stewardship of Guinness," says an aide.

Lord Hanson, on the other hand, is giving every indication he will move quickly to maximize returns on his Kidde investment. The 65-year-old chairman, hand in hand with Sir Gordon White, chairman of Hanson Industries in the U.S., closed in on Fred Sullivan's Kidde group in August with a combination of stealth and good fortune. Hanson quietly acquired a small, strategic stake in Kidde. Sullivan, sensing his company was being stalked but not realizing it was Hanson, responded by approaching Hanson for a friendly takeover.

Sir Gordon, 65, now has teams examining Kidde's assets, which include Tommy Armour golf clubs, Jacuzzi whirlpool baths and Farberware kitchenware among its more than 100 subsidiaries. Fiona Parrot-Humphrey, an analyst for Robert Fleming Merchant Bank, sees belt-tightening and asset disposals starting in November. Says Parrot-Humphrey: "If anyone can find diamonds in Kidde, it is Lord Hanson."

The audacity of some deals is reflected in the record number of rights issues (allowing existing stockholders to buy more shares of a company) being arranged by the City. Through October, a total of £8.8 billion ($14.3 billion) has been raised through 180 rights issues, many to help leverage foreign takeovers. This compares with 184 issues in 1986 worth £5.6 billion ($9.1 billion).

One of the largest this year was an £837 million ($1.4 billion) issue managed by

TONY BERRY
"I'M NOT CLEVER"

Tony Berry, 47, is one of the brightest stars of British business. Starting as a management trainee with Guinness, he became chief accountant of the Bovril food products company in 1969, and a year later, at age 30, was made finance director of Brengreen holdings, a waste disposal company. Says Berry: "I'm not clever, but I have an ability to make people believe in my ideas."

In 1982, Berry set up a management consulting firm and just a year later bought a 55 percent stake in the Barnet employment agency, later to become his own Blue Arrow company. In a year he turned Barnet's £130,000 ($212,000) annual loss into a profit of £211,000 ($344,000). An avid sports fan, he owns 5 percent of Tottenham Hotspur, a football team, and has pledged £10 million ($16 million) to sponsor Britain's next entry in the America's Cup race.

PHOTOGRAPH BY RIC GEMMEL

SIR PETER WALTERS
MAN OF SIMPLE TASTES

A lifelong oilman who joined British Petroleum in 1954 after military service, Sir Peter Walters, 56, says the one thing he learned in the army was to write a concise memo. He has been closely associated with BP's international operations, rising to managing director in 1973, deputy chairman in 1980 and chairman in 1981.

The son of a Birmingham police inspector, Walters is a man of simple tastes who buys his suits off the rack at the popularly priced Marks & Spencer stores. Under his leadership, BP launched a ten-year restructuring program, the centerpiece of which is this year's $7.4 billion acquisition of the 45 percent it did not already own in Standard Oil of Ohio. Currently Walters is overseeing the sale of the government's £7.5 billion ($12.2 billion) stake in BP, a key part of the Thatcher government's privatization program.

County NatWest Ltd., the merchant bank division of NatWest Investment Bank Ltd., supporting the daring $1.2 billion takeover of Manpower, Inc., the U.S.-based international employment organization, by the fledgling Blue Arrow employment group. Blue Arrow, itself only formed in the early 1980s by young entrepreneur Tony Berry, rang up sales last year of £97 million ($158 million), which County Bank NatWest forecasts will grow to £240 million ($391 million) this year. However, this is still a pittance compared with Manpower's estimated $1.2 billion 1987 revenues.

It is a case of the mouse swallowing the cat and, not surprisingly, there have been digestion problems. Only 49 percent of the issue was bought by shareholders; the balance had to be placed on the London Stock Exchange by brokers Phillips & Drew. The Blue Arrow situation indicates that not all proposals end in happy marriages, and some do not come off at all.

The classic British horror story in the U.S. concerns Midland Bank plc's five-year ownership (1981–86) of the Crocker Bank of California, which eventually cost it $1.1 billion. The arrangement foundered from the start due to Crocker's extensive high-risk loan exposure both in the U.S. and in Latin America.

Midland Chairman Sir Donald Barron bit the bullet last year before his retirement and sold Crocker to Wells Fargo Bank of California for $1.07 billion. In effect, the bank lost about 25 percent of its investment, due to the inflation that had taken place since 1981. It ended finally in Britain's largest ever "golden handshake," a £3.9 million ($6.3 million) settlement with former Crocker executive Frank Cahouet, who helped conclude the Wells Fargo deal.

Publishing tycoon Robert Maxwell, owner of the popular *London Daily Mirror* (circulation 3.1 million), also came a cropper in his efforts to enter big-time publishing in the U.S. Last spring he sought to beef up the U.S. holdings of his British Printing & Communication Corp. with a bold, unfriendly $2-billion bid for U.S. book-publishing giant Harcourt Brace Jovanovich. A wave of BPCC acquisitions

ANTHONY TENNANT
AN ALOOF PATRICIAN

Anthony Tennant, 57, was named chairman of Guinness in March 1987 while the company was still reeling from insider trading scandals.

A graduate of Eton and Cambridge and the son of a wealthy Scottish family, Tennant has a reputation as an aloof patrician. Still, he has wasted no time putting his stamp on the problem-ridden Guinness, getting rid of noncore subsidiaries and broadening its international base with the recent takeover of Schenley.

A connoisseur of fine wines and the owner of expensive racehorses, Tennant previously was deputy chief executive of Grand Metropolitan Group, where he took over its liquor division and pushed profits from £10 million ($16.5 million) to £150 million ($244 million) in ten years. He joined Guinness after losing the top spot at Grand Met to Allen Sheppard.

PHOTOGRAPH BY IAN BRADSHAW

last year in the U.S. and Canada of satellite communications, printing operations and newsprint companies was the first stage of a game plan to make the U.S. the linchpin of Maxwell's international publishing empire.

Those takeovers will double BPCC's overall revenues by the end of this year to £1 billion ($1.6 billion). Maxwell's goal is to make BPCC a big-league communications company with £3 billion-to-£5 billion ($5 billion-to-$8 billion) in revenues by 1990.

But HBJ Chairman William Jovanovich refused to play. He rejected Maxwell's bid out of hand, citing the Czech-born entrepreneur's close, and according to Jovanovich, "unsavory" ties with Eastern European political leaders. Maxwell, a former Labour Party MP, responded with a £630 million ($1 billion) rights issue to back up his bid, but Jovanovich's withering personal attacks and a $3 billion recapitalization of HBJ forced the British businessman to withdraw from the fray.

Still another failure was the attempt by the Plessey Co. plc, the British electronics group, to take over the $2.1 billion Florida-based Harris Corp. The bid was nipped in the bud by an outright rejection by the Pentagon, due to Harris' top-secret defense contracts.

Undeterred, Plessey competitor Ferranti plc has launched a merger proposal with the International Signal & Control Co., another defense contractor, to create a new Anglo-U.S. company. Says Sean Kennedy, a Ferranti spokesman: "We have complementary defense system contracts both in the U.S. and in Europe. The Defense Department has given us the nod and we are working on the merger now." The new company will have annual sales of £1.2 billion ($2 billion).

Midland's unhappy experience with Crocker has made British banks wary of any major move into the U.S., a caution heightened by the U.K.'s own extensive loan exposure in Latin America and Africa.

Nevertheless, Tom Frost, the recently appointed chief executive of Britain's largest bank, National Westminster Bank plc, has used his own experience as chief of National Westminster's New York bank in the 1970s to push through an $820 million bid for the First Jersey National Corp. last July. First Jersey has no outstanding loans in the developing countries, and the easing of U.S. interstate banking regulations will give NatWest a foothold in the highly lucrative Northeast market. Says Frost: "We looked at the Midland experience closely but saw little parallel between their Crocker deal and our move on First Jersey."

Robert Law, banking analyst with brokers Kitcat & Aitken, says that the emergence of a regional banking system in the U.S. should have other British banks following in NatWest's footsteps, "just as long as they do their homework on a bank's loan exposure."

Few experts in the City believe U.K. companies will be able to repeat this year's record spending spree in the U.S. next year. Still, British Overseas Trade Board Chairman Sir James Cleminson sees "a steady pattern of investment emerging between our two countries. The U.S. is, after all, our largest single trade partner." Adds Sir Gordon White of Hanson Industries: "We liquidated many of our U.S. assets in the First and Second World War; now we are building them up again. As for Hanson's activities, we want to be in countries where they speak English—and that means in the U.S. above all."

It works the other way, too, says Giles Shaw, Britain's industry minister. U.S. investment in Britain is now worth $34 billion and represents 41.4 percent of total U.S. investment in the European Community. Sums up a British banker: "It was George Bernard Shaw who said that the U.S. and Britain were two nations divided by a common language. That's not true anymore; they are united and the common language is money." ■

MAJOR U.S. ACQUISITIONS BY U.K. COMPANIES, 1987

TARGET	INDUSTRY	ACQUIRER	PRICE (in millions)
Standard Oil (45%)	Oil	BP	$7,600
Kidde	Conglomerate	Hanson	1,700
Stauffer Chemicals	Agrichemicals	ICI	1,690
Manpower	Employment	Blue Arrow	1,300
Heublein	Drinks	Grand Metropolitan	1,200
Hilton	Hotels	Ladbroke	1,070
First Jersey National	Banking	National Westminster	820
ADT	Security	Hawley	715
Rent-a-Center	Electronics	Thorn EMI	595
Revlon (Visioncare)	Eye Care	Pilkington	574

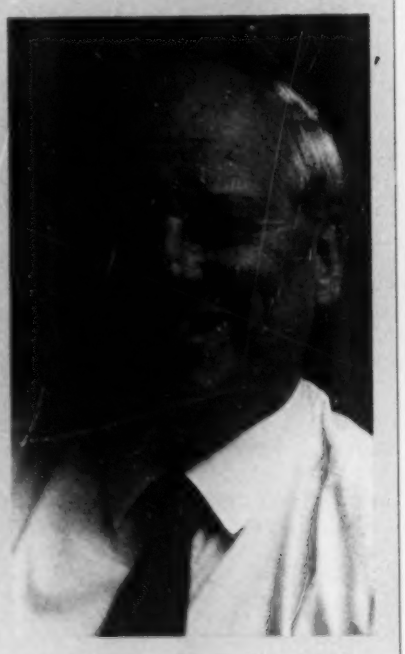
Source: Acquisitions Monthly

DENYS HENDERSON
"A GODDAMN PEDDLER"

Born in Ceylon (Sri Lanka), Denys Henderson, 55, is the son of a Scottish tea planter. Trained as a lawyer, he joined Imperial Chemical Industry's legal department in 1967. He took over ICI's agrichemicals division in 1974, was appointed general manager in 1977 and a director in 1980.

A restless man who is always bursting with energy, Henderson finds it difficult to sit in one place for very long. He became ICI's youngest chairman in its sixty-year history when he succeeded Sir John Harvey-Jones earlier this year.

To play up ICI's multinational interests, Henderson chaired ICI's first board meeting outside the U.K., which took place in New York in June. Constantly selling his ideas to all levels of the company's management, he characterizes himself as just "a goddamn peddler."



PHOTOGRAPH BY IAN BRADSHAW

RIPPLE EFFECTS OF MISSILE ACCORD

Sure, a Reagan-Gorbachev pact is good for humanity, but there are serious business questions at play, too.

BY EDWARD M. MERVOSH

The U.S.-Soviet agreement to eliminate short- and medium-range missiles in Europe, to be signed by President Reagan and Prime Minister Gorbachev this year, may or may not bring about a more peaceful world. But one thing is almost certain: by forcing a reappraisal of NATO military strategies, the treaty will intensify the struggle among the armed services and on Capitol Hill over how to allocate defense outlays, which could reach $300 billion in 1988. It is also likely to increase pressure on U.S. allies to take on more of the defense burden.

These struggles will have major repercussions for the 2,000-to-3,000 companies that make everything from strategic bombers to rifle parts. "The defense industry environment will be changing dramatically," says L. Douglas Lee, vice president and defense expert at the Washington Analysis Corp. "Demand for new products will be emerging, the business will become even more competitive, and that means defense companies can no longer be complacent as they have been in the past when business was more assured."

Although the treaty has been heavily criticized—by NATO General Bernard Rogers, NATO allies like Germany, conservative groups like the Heritage Foundation and a small, powerful group of Republicans and Democrats—the odds are low that it will run into serious flack in Congress when it comes up for a vote early next year. Anything that reduces the horrifying prospect of nuclear war has broad public support. "I think it's a done deal," says Representative Les Aspin of Colorado, chairman of the House Armed Services Committee and one of the treaty's most outspoken critics.

But the tactical, strategic and spending implications of the INF treaty are likely to become the targets of intense discussion as early as next spring when Congress begins putting together the fiscal 1989 defense budget. Big questions are likely to arise over how much the U.S. should be spending on defense and on what kinds of weapons. The debate will focus primarily on whether the country should spend less on nuclear weapons and more on conventional arms such as helicopters, tanks and personnel carriers.

The treaty itself will have little direct impact on either the composition or the total amount of defense spending. Since 1983, the U.S. has deployed in NATO countries some 256 cruise and 108 Pershing II missiles armed with nuclear warheads at a cost of about $9 billion. But those missile-building programs have been largely completed, and since it doesn't cost much to maintain the missiles, there is little to be saved there. Removing and returning them to the U.S. will also cost very little. "We're not stopping production of anything, and we'll be removing those missiles slowly over the next five years, so this will be a relatively inexpensive exercise," says Paul Nisbet, a senior vice president at Prudential Bache Securities, who specializes in the defense industry.

Still, the INF treaty is likely to generate demands for other types of military spending. Defense experts widely agree that for the INF treaty or any subsequent nuclear disarmament treaty to work, the U.S. and the Soviet Union will have to keep a close eye on each other. That means the U.S. will have to build up its surveillance capability, primarily by putting more—and more sophisticated—spy satellites into space. This could be a boon to such aerospace giants as Hughes Aircraft and TRW, which specialize in such equipment.

And with the space shuttle in limbo, most of this payload would probably have to be lifted with one-shot missiles of the type manufactured by Martin Marietta, McDonnell-Douglas and General Dynamics. These companies say they would also like to perform the launches on a contract basis, a job that in the past has been done by NASA. They already have orders to put more than forty commercial satellites into space by the 1990s. "Ironically, the INF treaty could end up as fatter order books for these missile makers," says defense analyst Peter Aseritus of Smith Barney, Harris Upham.

Expanding U.S. surveillance capability

BIG NAMES IN DEFENSE

From 1984 through 1986, the following ten companies received nearly half of the $321 billion in contracts let by the Defense Department. Here's who got what (in billions):

McDonnell Douglas	$23.1
General Dynamics	21.4
Rockwell	18.1
General Electric	17.3
Lockheed	15.0
General Motors/Hughes	14.5
Boeing	13.6
United Technologies	10.7
Raytheon	10.1
Grumman	8.1

Source: Washington Analysis Corp.

would also boost demand for ground communications equipment—receivers, transmitters and the like—to collect information from the satellites. And it would increase the need for computers to process the data. That could mean more business for companies such as Raytheon and Texas Instruments, which manufacture communication earth terminals, and for computer makers, especially Sperry Rand and Honeywell, the biggest providers of computers to the military. Expanding military surveillance could be a godsend to semiconductor manufacturers such as RCA, Intel and Motorola, which are facing intense foreign competition.

When the smoke clears around the INF treaty, however, the biggest bucks could go to manufacturers of conventional weapons like airplanes, tanks, machine guns and artillery. Up to now, the U.S. and its NATO allies have accepted the Warsaw Pact's superiority in numbers of conventional weapons *(table, page 56)* because of the West's strong nuclear deterrent. But with a dismantling of NATO missiles, achieving parity in nonnuclear arms is apt to become a high American priority.

Closing the gap would be expensive. A study by the House Armed Services Committee concluded that the Soviet Union and Warsaw Pact countries have a 2.5-to-1 advantage in conventional weapons. "Growing awareness of this imbalance will trigger a hot debate in Congress over how much to spend on strategic weapons and how much to spend on tactical weapons," Aspin says.

Indeed, given the recent sentiment in Congress, the big issue is likely to be not whether to spend more on conventional arms, but how much more. Last year, when an INF treaty was still just a glimmer in President Reagan's eye, Congress passed the Balanced Technology Initiative and the Conventional Defense Initiative, which set aside about $600 million in research and development money to be spent only for non-nuclear weapons. Now, with the INF treaty a reality, the political pressure for more conventional weapons is certain to mount.

Actually, there would be little debate over nuclear versus conventional weapons if there were enough money for both. But defense spending started to slow sharply in 1985, and in real dollars it is expected to grow very little if at all in the next three years. In the new era of budget restraint, neither the public nor Congress is ready to spend easily. Revelations of the General Dynamics scandal and other reports of waste in the defense industry have also cooled the ardor for defense.

The INF treaty could make it even tougher to boost defense spending in coming years. "Reducing nuclear devices as the INF treaty does will make people feel good about the prospect for a more peaceful world," says Washington Analysis' Lee. "That won't make selling the idea of spending a lot more on defense to the public or Congress very easy."

As defense analysts see it, neither the public nor Congress will cotton to the fact that it takes a lot more money to match the Soviets and its allies in conventional weapons than in nuclear ones; the fact is, nuclear weapons give far more bang for the buck. The House Armed Services Committee has concluded that to achieve balance in conventional firepower, the U.S. and its NATO allies would have to add ten armored divisions at a one-time cost of $75 billion. In addition, it would cost $20 billion a year to maintain those divisions.

Assuming a lid on defense spending, that money would have to come out of other programs. How the money got shifted around within the budget could, of course, would mean billions of dollars in business to be lost or gained by arms makers.

Many conventional arms proponents want to get money for the buildup by scaling back on the President's Strategic Defense Initiative, better known as Star Wars. Representative William L. Dickinson of Alabama, the ranking Republican on the Armed Services Committee, has sharply criticized the Pentagon's proposed spending hikes for Star Wars—up 61 percent to $5.8 billion in fiscal 1988. "There is no way that such funding can or should be approved when it is requested at the expense of needed conventional capabilities," Dickinson said in a letter to Defense Secretary Caspar Weinberger last December.

One idea is that the Defense Department beef up land-based forces by abandoning two proposed nuclear-powered aircraft carriers, which would cost $7 billion

HOW CEOS VIEW THE ARMS DEAL

Dwayne O. Andreas—Archer-Daniels-Midland Co.:
My reaction is favorable, with my fingers crossed. This could be the first of a series of Superpower agreements on a variety of topics. It should lead to a friendlier attitude between the two governments and help eliminate businesspeople's inhibitions about doing business with the Soviet Union.

John R. Hall—Ashland Oil, Inc.:
It is a major breakthrough in Superpower relations. While the agreement itself would only dent the current American and Soviet nuclear arsenals, it could lead to more discussions on topics ranging from arms control to trade.

John C. Bierwirth—Grumman Corp.:
I hope it will create an atmosphere of approval and give the Soviets the willingness to take the second step: a substantial reduction in intercontinental ballistic missiles. But to truly relieve anxiety in Europe, the Soviets must reduce the size of their tank forces. It's the Soviet tank divisions that have been so threatening to the Europeans.

How does this affect Grumman? Actually, this tends to increase the importance of the tactical weapons such as the F-14 fighter and the A-6 strike bomber that we produce. As nuclear weapons are phased out, the conventional arms become more, rather than less, important.

Anthony J.A. Bryan—Copperweld Corp.:
One has to have a positive reaction to anything that reduces tension between the two countries. But the short-term effect will be that we will have to rely more on conventional arms, which is a more expensive way to defend ourselves. What we need to do to reduce tensions is take down all forces in equal measure on both sides.

John W. Teets—Greyhound Corp.:
We have to be cautious with the Russians and make sure we have safeguards in place to insure compliance. The goal of the Russian and American people is the same: peace and relief of tensions. But you are dealing with governments, and getting them to trust each other can be a problem. Still, I think there is a need for this agreement. And certainly this expands the opportunities for businesspeople to work there.

Edson W. Spence—Honeywell Inc.:
This is an important milestone in U.S.-U.S.S.R. relations. Assuming the agreement is ratified by the Senate, it should open the way to further nuclear arms reduction over the next decade. At the same time, the INF deal puts a heavy burden on the NATO countries to be sure there is a parity in conventional arms.

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